

FOR DNRC USE ONLY

Maximum amount under this agreement: \$30,000

Source of Funds

Accounting Entity Name

Trust Land Management Division

Accounting

Entity No.

57060

Approp. No.

« 6 »

Org. No.

6023

Percent

100%

Appropriation authority: « 9 »

Approved

No. 057500

Amendment No.

Division man gus

C.S.D. gus

Legal gus

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Trust Land Management Division

Otter Creek Resource Evaluation

This Agreement is between the Montana Department of Natural Resources and Conservation (DNRC), and Great Northern Properties L.P. (GNP), Tax ID No. 76-0380610. The parties to this Agreement, in consideration of the mutual covenants and stipulations set out herein, agree as follows:

Section 1. PURPOSE. The purpose of this Agreement is to establish mutually agreeable terms and conditions, specifications and requirements under which DNRC may purchase an Assessment, to be prepared under the direction of GNP, for the Otter Creek coal resource area.

Section 2. TERM. This Agreement is effective when signed by all parties to the Agreement. The effective date is the last date of signing, and shall terminate on June 30, 2006 unless terminated earlier pursuant to Section 16, Termination.

Section 3. LIAISON. All communications by GNP to DNRC concerning this Agreement shall be addressed to Monte Mason, Department of Natural Resources and Conservation, P.O. Box 201601, Helena, Montana 59620-1601. All communications by DNRC to GNP shall be addressed to Charles H. Kerr, President, Great Northern Properties L.P., 601 Jefferson Street, Suite 3600, Houston, Texas 77002.

Section 4. SCOPE OF WORK. GNP has entered into a contract with Norwest Corporation, Salt Lake City, Utah 84111 to prepare the geologic evaluation, coal resource assessment, and mineability assessment (collectively referred to as the Assessment) detailed in Attachment 1. DNRC may purchase the Assessment, after its presentation to GNP, pursuant to Section 5. Payment.

Section 5. PAYMENT. The purchase price to DNRC for the Assessment shall be 35% of GNP's total direct invoiced costs from Norwest Corporation, or \$30,000, whichever is less. Payment will be made within thirty (30) days of delivery of the Assessment and documentation of total direct invoiced costs.

Section 6. LEGAL REQUIREMENTS. GNP shall comply with all applicable federal, state, and local laws, statutes and ordinances and all applicable rules, regulations, and standards established by DNRC.

Section 7. LAW AND VENUE. Any action at law or suit in equity, or judicial proceeding for the enforcement of this Agreement or any provision thereof shall be instituted only in the courts of the State of Montana. This Agreement shall be governed by the laws of the State of Montana, both as to interpretation and performance. In the event of litigation concerning the terms of this Agreement venue shall be in the First Judicial District in and for the County of Lewis and Clark.

Section 8. MONTANA PRODUCT PREFERENCE. Omitted

Section 9. PERSONNEL. GNP is independent and is not an employee of the State of Montana nor of DNRC and is not covered by the Workers' Compensation laws applicable to DNRC as an employer. GNP further certifies that it has no employees and is not subject to providing Workers' Compensation coverage.

Section 10. EQUAL EMPLOYMENT. Any hiring of employees by GNP under this Agreement shall be on the basis of merit and qualifications, and there shall be no discrimination on the basis of race, color, religion, creed, sex, national origin, age, disability, marital status, or political belief. "Qualifications" mean qualifications as are generally related to competent performance of the particular occupational task.

Section 11. PUBLIC INFORMATION AND OWNERSHIP OF PRODUCTS. The Assessment will be rendered utilizing the publicly available data of the State of Montana in conjunction with the confidential and proprietary data owned and/or controlled by GNP. While all information contained in the Assessment purchased by DNRC shall be available to it in the offices of GNP, only those portions of the Assessment which do not violate the confidential and proprietary status of data owned and/or controlled by GNP shall be available to the public. The State of Montana agrees to treat as confidential, those portions of the Assessment which contain GNP confidential and/or proprietary data.

Section 12. INDEMNITY AND LIABILITY (Hold Harmless/Indemnification). Omitted.

Section 13. ASSIGNMENTS, TRANSFERS AND SUBCONTRACTS. Except for GNP's existing contract with Norwest Corporation, there will be no assignment, transfer or subcontracting of this Agreement, nor any interest in this Agreement, unless agreed to by both parties in writing as provided in Section 15, Modifications. This Agreement shall be binding on all successors and assigns of GNP, including successors in interest.

Section 14. AUDIT. GNP shall maintain reasonable records of its performance under this Agreement. GNP agrees that DNRC, the Legislative Auditor, or the Legislative Fiscal Analyst may audit all records, reports, and other documents which GNP maintains under or in the course of this Agreement to insure compliance with this Agreement. Such records, reports, and other documents may be audited at any reasonable time. The Agreement may be unilaterally terminated by DNRC upon GNP's refusal to comply with this or any other section. In the event the Agreement is terminated for such failure to comply, GNP, at the option of DNRC, shall return to DNRC all funds previously awarded GNP and all results of the project to date.

Section 15. MODIFICATIONS. This instrument contains the entire Agreement between the parties, and no statement, promises, or inducements made by either party, or agents of either party, which are not contained in this Agreement shall be valid or binding and this Agreement may not be enlarged, modified or altered except as provided in this Agreement. No letter, telegram, or other communication passing between the

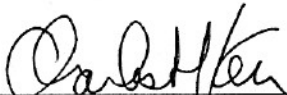
parties to this Agreement, concerning any matter during the term of this Agreement shall be deemed a part of this Agreement unless it is distinctly stated in such letter, telegram, or communication that it is to constitute part of this Agreement, and such letter, telegram, or communication is attached as an appendix to this Agreement and is signed by the authorized representative of each of the parties to this Agreement. If executed properly under this section, modifications of this Agreement do not need independent consideration to be legally enforceable.

Section 16. TERMINATION. Upon breach of any of the terms and conditions of this Agreement by either party, the non-breaching party may terminate this Agreement and have any and all remedies at law or equity. Either party may cancel this Agreement at any time upon written notice to the other. Either party may postpone or cancel this Agreement if subsequent funding is not available.

Section 17. WAIVER. A waiver of any particular provision of this Agreement by DNRC shall not be construed as a waiver of any other provision, nor shall any such waiver otherwise preclude DNRC from insisting on strict compliance with this Agreement in other circumstances.

Section 18. CONTENTS. This Agreement consists of pages 1- 3 and one attachment.

6-3-05
Date



Charles H. Kerr, President
Great Northern Properties, L.P.

6/13/05
Date



Mary Sexton, Director
Department of Natural Resources and Conservation

136 East South Temple, 12th Floor
Salt Lake City, UT 84111
Tel (801) 539-0044
USA (800) 266-6351
Fax (801) 539-0055

May 4, 2005

File No. 05-3187P

Richard D. Tift III
Vice President Geologic Services

Charles H. Kerr
President
Great Northern Properties, L.P.
601 Jefferson Street, Suite 3600
Houston, TX 77002

Subject: Revised Proposal

Dear Mr. Kerr:

After discussing our initial proposal to conduct an evaluation of Great Northern Properties' (GNP) Otter Creek Coal Resource Area, Norwest offers this revised proposal for your consideration. The geology component is unchanged, while the mining evaluation component has been reduced in scope. The economic analysis has been eliminated and replaced with a mineability evaluation and a competitiveness analysis. Our specific proposal is outlined below. Please let me know if you have any questions or require any specific modifications.

SCOPE OF WORK

The overall objective of this project is to update the geologic coal resource analysis, identify specific logical mining units (LMUs), and prepare documents that describe each LMU in terms of geology, available resources, coal quality, mineability, strip ratio and expected mining cost. This work will require integrating drilling data available when the original 1997 studies^{1,2} were completed with newly acquired data.

The proposed study will involve the following two primary components:

- Geologic evaluation and coal resource assessment
- Mineability assessment.

¹ Norwest Mine Services, Preliminary Assessment of Coal Quality: Otter Creek Reserve, Powder River County, Montana, June 10, 1997.

² Norwest Mine Services, Otter Creek Project Preliminary Feasibility Analysis, August 27, 1997.

The tasks involved in each of these elements are described below. Norwest will build on the insight gained from previous efforts and will endeavor to optimize costs involved in preparing this work through utilizing the applicable components of these studies.

**GEOLOGIC EVALUATION
AND COAL RESOURCE
ASSESSMENT**

Geologic Modeling

The geologic modeling component will consist of merging two separate geologic databases into one consolidated stratigraphic and coal quality database which will formulate the basis of the geologic model.

The current geologic data set consists of 685 drill holes contained in the GNP database and data acquired from a 2004 drilling program (53 holes) carried out by Kennecott Energy Corporation and issued by the Minerals Management Bureau of the State of Montana.

The initial efforts will consist of preparing the composite drill hole database. Correlation charts will be constructed in order to ensure that the 2004 data set conforms to the same stratigraphic nomenclature that has been established for the GNP data set.

Once the master database is finalized and groomed, Norwest will construct an independent geological model of the Otter Creek property by creating digital surfaces of the seam structure, thickness and basic quality parameters. All structural surfaces will be checked and adjusted as necessary to honor available drill hole data. Collar elevations of all bore holes will be compared with the corresponding digital topography to assure accuracy in survey location. Upon completion of digital structure surfaces, maps locating the position of the seam outcrop and subcrop will be generated. Norwest will review available basic data and previous assumptions concerning the depth of seam weathering and oxidation, and prepare the representation of "base of weathering".

Upon completion of the composite stratigraphic and structural models, incremental coal quality data will be merged into this master database for modeling. Within our 1997 report on the assessment of coal quality, Norwest identified significant differences in moisture content between two important drill data sets (Consol and Cities data). This appeared to be the result of

poor handling and sampling of the core and/or problems with the coal laboratories. Norwest recommended that a coal quality drilling program be implemented to bolster the confidence in the coal quality models. In that regard, we will carefully review the newly acquired Kennecott data for reliability and consistency. We anticipate constructing the coal quality model as follows:

- Build EQ Moisture models for each ply based on the 2004 data
- Build a Dry Basis model for each ply based on all data points
- Build an MAF Btu/lb model for each ply based on all data points
- Estimate coal quality based on new coal quality models.

In addition to moisture content, Norwest will pay particular attention to the distribution and variations of sodium content in the ash.

Norwest will also conduct an analysis of the vertical variation of sodium in the Knoblock Seam. Based on the suitability of the data, Norwest will prepare an analysis demonstrating the effects of full seam mining versus selective mining. This may be used as a guide for optimizing the coal quality, while balancing total tonnages. To this end, Norwest may solicit input from GNP as to the target and cut-off sodium concentrations. In addition, Norwest will provide input to the mining model in order to ultimately estimate the predicted run-of mine coal quality.

Maps illustrating all of the most important modeled surfaces will be prepared. These will include:

- Seam structure, outcrop and oxidation limits
- Seam thickness and parting limits
- Overburden and In-place ratios
- Coal quality, full seam or optimized basis
- EQ Moisture, Ash, Sulfur, CV and Sodium Oxide.

Norwest will prepare the geologic models utilizing a combination of our in-house geological software "Pinnacle" and Carson Engineering's SurvCADD XML modeling software.

In-Place Coal Resource Estimate

Norwest will estimate the in-place coal tonnage, quality and stripping ratio based on ownership status. The resource estimate will be reported on the full-seam or a quality optimized basis as, the data dictates. Norwest will review the basic assumptions and criteria used in the previous modeling studies to confirm their use in the new modeling efforts. Maps clearly identifying the resource areas will support the analysis.

MINEABILITY ASSESSMENT

At the conclusion of the geologic and coal resource evaluation work, Norwest will identify LMUs within the Otter Creek property. Each LMU will then be evaluated for mineability, i.e., reasonable depth to coal, acceptable coal quality, moderate stripping ratio, ease of mining, etc.

Norwest proposes to complete the following tasks for this phase of the project.

Identification of LMUs

This task consists of evaluating coal structure, thickness and quality maps produced from the geological model developed in the geological evaluation phase. Based on these maps and drawings, Norwest will identify areas separated from one another by physical boundaries and containing significant tonnages of mineable coal. Physical boundaries could include drainages that cut through the mineable seam(s), maximum strip ratio boundaries that exclude further mining in a given area, or property and lease boundaries.

Preliminary Mine Layouts

Using the updated geologic model, Norwest mining engineers will develop conceptual mine area layouts for each LMU. Each mine layout will cover the maximum amount of coal that falls within an acceptable strip ratio. The engineers will apply mining factors, including minimum seam thickness and maximum mining depth to determine in-place mineable resources in each LMU.

Mining dilution, and coal recovery factors will then be applied to estimate recoverable tons and quality of coal withing each LMU.

Based on the specific conditions of each LMU, including surface terrain, aerial extent of the LMU, and depth to coal, Norwest engineers will suggest a plausible mining approach, i.e.,

truck/shovel, dragline, dozer stripping or a combination. The focus will be on large-scale mining systems with significant economies of scale and cost advantages.

Mining Cost Estimate

Norwest will make a preliminary determination of mining costs based on the recommended mining system and mining strip ratio. This estimate will be based on typical unit costs of mining in the region.

Coal Handling and Transportation

Norwest will review and update from previous work, transportation options for moving coal from Otter Creek to the nearest railhead located 38 miles to the north. This evaluation will compare truck haulage versus constructing a rail spur to connect the Otter Creek property to the main rail line. Infrastructure requirements under each transportation option will be included in the evaluation.

Market Review

While a rigorous analysis of potential markets for Otter Creek Coal is not envisioned at this stage, a preliminary evaluation of target markets, including coal sales pricing, will be developed. A critical element of this evaluation will be to understand the potential market constraints of any elevated sodium content.

Competitor Analysis

Norwest is familiar with the existing mining operations in the region and will use this knowledge, plus publicly available information to compare these mines with Otter Creek properties. This evaluation will consider such issues as coal quality, stripping ratios, and transportation options. A comparative matrix will be prepared showing competitive rankings.

DELIVERABLES

Norwest proposes to present the findings from this study to GNP and discuss how the results will be presented for key audiences, i.e., GNP, State of Montana, and interested coal developers.

Fully illustrated and documented reports will be prepared covering the key assumptions, results, findings, and recommendations. The report, along with the digital database and key electronic files, will be provided to GNP at the conclusion of the effort.

PERSONNEL

Depending upon availability, Norwest will assign either Gary Stubblefield, or Kirk Weber as Project Manager for this work. The Project Manager will be assisted by Norwest specialists with the specific required skills as listed in Table 1.

Table 1 Project Staffing

Discipline	Personnel	Mining Industry Experience
Geology	Rick Tift, P.G. VP Geologic Services	27 years
	Larry Henchel Mgr. Geologic Services	23 years
	Steve Kerr Senior Geologist	20 years
Mining Evaluation	Gary Stubblefield, P.E. VP Surface Mining	35 years
	Jim Hitt Senior Mining Engineer	31 years
	Alister Horn Senior Mining Engineer	8 years
Facilities and Transportation	John Trygstad Mgr. Facilities & Transport	34 years
Markets and Economics	Conrad Houser Vice President	30 years
	Kirk Weber Vice President	28 years

Resumes for these key professionals are attached for reference.

**SCHEDULE AND
COMMERCIAL TERMS**

Norwest is available to begin work on this project within two (2) weeks of receiving notice to proceed. A presentation of the study findings will made to GNP within six (6) to eight (8) weeks after work commences. Norwest will submit our report(s) documenting project results within 2 weeks after the presentation meeting.

Norwest's estimate of professional fees for completing the Scope of Work described in this proposal is in the range of \$58,000-\$65,000. Norwest will bill GNP for actual hours worked according to the standard professional fees schedule listed in Table 2. Expenses (including but not be limited to travel, telephone and fax, postage, courier, and reproduction) are in addition to these fees and will be billed at cost (without mark-up).

Table 2 Standard 2005 Consulting Rate Schedule

Category	Hourly Rate (US\$)
Senior Vice Presidents/General Managers	\$175
Vice Presidents	\$160
Project Managers	\$135
Senior Engineers & Geologists	\$115
Engineers & Geologists	\$105
Draftspersons	\$60
Secretarial/Clerical	\$40

Norwest will invoice GNP monthly for actual hours worked on each project.

If you find this letter of engagement and scope of work to be in order, please either return a signed copy for our files or provide a purchase order with billing instructions.

If you have questions concerning the above please do not hesitate to call me. We thank you for considering Norwest for this project and look forward to its successful completion.

Sincerely,

NORWEST CORPORATION

Richard Tiff
Vice President Geologic Services

Accepted: Great Northern Properties, L.P.

By: Charles H. Kerr
(name)
Charles H. Kerr
(signature)

Date: 6-2-05

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

Trust Land Management Division



BRIAN SCHWEITZER, GOVERNOR

1625 ELEVENTH AVENUE

DIRECTOR'S OFFICE (406) 444-2074
TELEFAX NUMBER (406) 444-2684

PO BOX 201601
HELENA, MONTANA 59620-1601

June 10, 2005

MEMORANDUM

TO: Mary Sexton, Director
FR: Monte Mason, MMB Chief *mm*
RE: Otter Creek Resource Assessment

This is the evaluation agreement I mentioned to you the other day. Signed originals received from Great Northern Properties (GNP) today.

This agreement covers the last step in the inventory and assessment work put into place by SB409 in the 2003 legislative session. That bill, codified at 77-1-1001, et seq., MCA, itemized resource work to be conducted by the department. A cultural resource inventory and drilling program on state ownership was completed last fall. The present agreement allows us to work with GNP and obtain a coal resource assessment that incorporates existing and newly acquired data. Much of the existing data is proprietary. This review is of value to both the State and GNP.

The evaluation is anticipated to cost between \$58,000 - \$65,000. Our share is a pro-rata 35%, subject to a hard cap of \$30,000.

Two originals are attached for your review and signature. Please discuss if you have any questions. Thanks.

Copy: Tom Schultz, TLMD Administrator

June 26, 2006

AMENDMENT #1

This amendment to Otter Creek Resource Evaluation Agreement No. 057500, hereinafter called the "Amendment," is made and entered into between the Montana Department of Natural Resources and Conservation, Trust Land Management Division, PO Box 201601, Helena MT 59620-1601, hereinafter called the "Department," and Great Northern Properties LP, 601 Jefferson Street, Suite 3600, Houston TX 77002, hereinafter called "GNP."

The parties to the Amendment, in consideration of the mutual covenants and stipulations set out herein, agree as follows:

WHEREAS, pursuant to Section 2, Term, the term of the Agreement is through June 30, 2006; and

WHEREAS, the Department and GNP desire the term of the Agreement to extend through December 30, 2006;

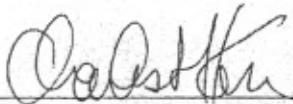
NOW THEREFORE, the term of the Agreement shall be amended to terminate on December 30, 2006 unless terminated earlier pursuant to Section 16, Termination.

No other terms and conditions of the Otter Creek Resource Evaluation Agreement No. 057500 are modified by this Amendment, and remain unchanged and in full force.

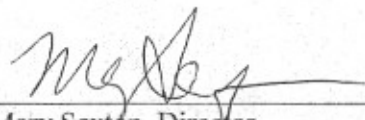
The effective date of this Amendment is the last day of signing by all parties.

This Amendment consists of one (1) page. One original is to be retained by the Department and one original is to be retained by GNP. A copy of the original has the same force and effect for all purposes as the original.

6-28-06
Date

By: 
Charles H. Kerr, President
Great Northern Properties, LP

6-29-06
Date

By: 
Mary Sexton, Director
Department of Natural Resources and Conservation